working for export, especially the timber and plywood industries. This was followed by a general decrease of activity throughout the industries supplying the home trade, such as the textile industry, owing to the fall in agricultural purchasing power arising out of the decrease of exports. This movement was further accelerated by the credit crisis of 1931 and the moratorium on banking withdrawals; and by 1932 the monthly average total of unemployed was well over 14,000.[1]

Meanwhile, in the autumn of 1931 there was a general increase in Customs duties, and a system of import quotas and exchange restrictions was introduced. All these measures greatly increased the tendency towards industrial self-sufficiency, which now became the acknowledged policy of the Government. There was consequently a considerable increase in the activity of the consumption industries, especially the textile sections, which, as in Estonia, increased their consumption of home-grown flax. This led in turn to an increase of activity in the production goods industries. At this stage the export industries began to experience a recovery, and by the end of 1934 the building boom in the United Kingdom began to have an appreciable effect on the plywood industry and saw-mills. There was also a marked recovery in the paper and cellulose industry.

Up to this point industrial expansion had followed the normal course of recovery from a severe recession. This recovery had taken place for the most part within the limits of the existing industrial apparatus. Few fresh industries had been started, and the relations existing between industry and the State before 1930 had, for the most part, been maintained. The advent of the totalitarian system in 1934, however, has been followed by an entirely new industrial policy. This policy does not consist merely in an attempt to attain the greatest degree of self-sufficiency. Its purpose would seem rather to be the introduction of a form of State capitalism or, at any rate, a system in which the State is able to exert direct control over the industrial organization. It will be seen how the State, by its relation to the co-operative system, is able to exert a considerable degree of control over agriculture and dairy farming. This, however, is a policy which the State is generally compelled to pursue in a poor country of small farmers. That such a policy should be applied to a relatively large industrial organization, which had hitherto relied on private enterprise, was a considerable innovation.

The policy began to be put into effect first through the *Latvijas Kreditbanka*,[2] a commercial bank formed by the State in 1935. By the purchase of majority shareholdings, this organization soon

[1] i.e. demands for work according to the official returns.
[2] On this, see further pp. 184–5.

471 acquired a considerable interest in industries of a very varied
652 nature, in determining the policy of which it is naturally instigated
655 by the desires of the State. During 1936 and 1937, however, the State itself has been acquiring a direct shareholding interest in a number of concerns, of which may be mentioned a large metallurgical works in Riga, and a large brick factory. Even in the timber industry the Government is in a position to control auction sales, and is itself an exporter. Almost the only branch of industry which has so far remained free from the direct or indirect influence of the State is the textile manufacturing industry.[1] How far this policy will be pursued
● [485] it is impossible to say. The President stated in April 1937 that the Government wished the entire Latvian population to participate in the progress of industry by taking a direct shareholding interest, and appealed to the public to purchase shares in the new State brickworks, even suggesting that the State might guarantee dividends.

433 *Lithuania.* Developments in Lithuanian industry since the crisis
457 have been on the whole inconsiderable. Though severe restrictions were placed on imports in 1935, the existing industrial system was too small to bear the strain of a thoroughgoing policy of self-sufficiency, and, in any case, the lack of foreign exchange and foreign credit has prevented the import of sufficient plant to make it possible. Nevertheless, there has been some expansion in the textile industry since 1930, and in 1936 there were as many as 5,000 persons employed in this branch, though the figure includes those employed in Memel. The result has been some decrease in the import of textile piece goods and an increase in the import of yarns and raw materials.
[477] A further development of some importance has been the growth of trusts and combines, mainly in the foodstuffs and brewing industries, which have arranged for the regulation of output and the fixing of prices.[2]

II. FOREIGN TRADE AND BALANCE OF PAYMENTS, 1931–7

1. General Movement

439 It has been seen that the foreign trade of Estonia and Latvia had already begun to decrease before 1931. With the onset of the financial crisis of that year, the decrease in the trade of all three countries rapidly gathered momentum. The value of exports (expressed in Swiss francs) did not finally reach their lowest level until 1933 for

[1] The State, however, has recently taken an interest in a newly formed company concerned with the production of woollen textiles (*Frankfurter Zeitung*, August 21, 1937). It may be added that the State is interested also in shipping; see below, Appendix II, p. 191.
[2] Details are given in D.O.T.: *Economic Conditions in Lithuania, November, 1935*, publ. 1936, pp. 15–16.

been able to export during recent years. The same applies to sugar, at any rate as regards Latvia and Lithuania. By 1936 Latvia was able to dispense with sugar imports entirely, while in Lithuania imports were reduced to 0·4 per cent. of the total value of imports. The corollary to the increase of agricultural production is seen in the increase of imports of chemicals, largely consisting of artificial manure, and of agricultural machinery.

The other more important result of the policy of self-sufficiency is the increase of industrialization. The effect of this movement is shown in the decrease of manufactured textile imports in all three countries, and the general increase of imports of machinery and iron and steel goods proportionately to the total. It is noteworthy, also, that in Latvia, and to a smaller extent in Estonia, there has been an increase in the proportion of imports of raw cotton and wool, and other textile fibres such as hemp and jute; even in Lithuania, by far the least industrialized country of the three, imports of raw cotton and wool amounted to 3·4 per cent. of the total in 1936 as compared with an average of under 1 per cent. in 1928–30. The increase in the proportion of coal and coke imports into Latvia, also, will be noted. Lastly, it may be mentioned that the abandonment of the gold standard by Latvia in September 1936 was followed by the reduction of Customs duties on a number of imports such as petroleum, herrings, and rice, which was dictated principally by the desire to prevent an immediate rise in the cost of living.

Changes in Exports. The economic structure of the Baltic States is not such as to facilitate important changes in the nature of their export trade over a short period. Timber, butter, bacon, and flax continued to be the staple articles of export, though there was in Estonia and Latvia a slight tendency for the proportionate value of these exports to be rather smaller than before the crisis.[1] In both countries, however, there was an increase in the proportion of flax exports, and of paper-making materials. There was also a further decrease in the proportion of exports of manufactured goods. Most of the manufactured articles exported from Estonia and Latvia before the crisis went to the neighbouring countries, which, after 1931, severely restricted their imports of such goods. The most remarkable changes are, perhaps, in Lithuania's exports, namely, the increase in the proportion of butter, bacon, and grain exports,

[1] In October 1936 Latvia decided to adhere to the European Timber Exporters' Convention. The purpose of this body, formed in November 1935, is to adjust supplies to demand at a remunerative level of prices. The other members are Austria, Czechoslovakia, Finland, Poland, Rumania, Sweden, the U.S.S.R., and Yugoslavia. For 1937 it was decided to limit exports from these countries to 4,000,000 standards, of which Latvia's share was to be 127,000 standards. During 1938 there is to be a reduction of 15 per cent. in the quota.